

1999

## Key links between business subjects and auditing and fare content specification outlines

American Institute of Certified Public Accountants. Board of Examiners. Content Oversight Task  
Force

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_exam](https://egrove.olemiss.edu/aicpa_exam)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

American Institute of Certified Public Accountants. Board of Examiners. Content Oversight Task Force, "Key links between business subjects and auditing and fare content specification outlines" (1999). *Examinations and Study*. 187.  
[https://egrove.olemiss.edu/aicpa\\_exam/187](https://egrove.olemiss.edu/aicpa_exam/187)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Examinations and Study by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

**KEY LINKS BETWEEN BUSINESS SUBJECTS  
AND  
AUDITING AND FARE CONTENT SPECIFICATION OUTLINES**

**Board of Examiners  
Content Oversight Task Force  
American Institute of Certified Public Accountants**

**Prepared by  
Professional Examination Service  
Department of Research and Development  
475 Riverside Drive  
New York, NY 10115**

**September 1999**

In August 1999, PES developed and implemented a linking task to identify a valid *context* in the Audit and FARE Content Specification Outlines (CSOs) for testing general business knowledge. In the linking task, CPAs were required to “link” the business subjects validated in the *CPA Business Information Survey* to the elements in the Audit and FARE CSOs. Specifically, they were presented with a set of business subjects and asked to:

- identify each activity in the Audit CSO in which knowledge and skills related to the business subject plays a key role and contributes to successful performance of the audit activity, and
- identify each element in the FARE CSO in which knowledge and skills related to the business subject contribute to their understanding of (or work related to) that FARE element.

To reduce the burden on raters, 4 versions of the linking task were created. (To perform the entire task, a respondent would have to evaluate more than 4,000 linkages.) In each version, respondents were asked to link a *subset* of the 67 business subjects with the Audit and FARE CSOs. Table 1 displays the characteristics of each version of the linking task.

**Table 1**  
**Four Versions of Linking Task**

Version	Business Subjects Evaluated	# of Possible Links
1	11 <i>Economics</i> subjects 4 <i>Organizational Structures</i> subjects	915
2	16 <i>Business Law and Regulation</i> subjects	976
3	11 <i>Working Capital Policy and Management</i> subjects 3 <i>Long-Term Finance and Capital Structure</i> subjects	854
4	22 <i>Business Management</i> subjects	1342

Eighty-two CPAs were selected to in the linking activity. Fifty-six of the participants had previously participated in other aspects of the general business knowledge study, that is, a focus panel, critical incidents interview, or survey pilot test. The other 26 participants were drawn from attendees at *Auditing* and *Business and Industry* focus panels conducted as part of a concurrent large-scale practice analysis of the accounting profession.

Table 2 displays the return rate for the linking task. The return rate was 48% overall, and ranged from a low of 37% for Version 3 to a high of 58% for Version 1.

**Table 2**  
**Return Rate for Linking Task**

Version	Number Mailed	Undeliverable	Number Returned	Return Rate
1	20	1	11	58%
2	21	0	11	52%
3	20	1	7	37%
4	21	1	10	50%
Total	82	3	38	48%

The following pages highlight the valid links between the business subjects and the Audit and FARE CSOs. The following criteria were applied to identify valid links:

- the business subject was linked to the auditing activity or FARE element by more than 50% of linking task participants;
- the mean *Importance* rating for the business subject was 1.5 or higher (as rated by CPAs in public accounting with 5 or fewer years of experience); and
- the business subject was endorsed as *Acquired Primarily Before Passing the CPA Examination* by more than 33% of the total sample of CPAs in public accounting.

These listings can be used to provide guidance to item writers for testing the validated business subjects on the Uniform CPA Examination.

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**A. Determine nature and scope of engagement**

Valid links:

10. Business implications of E-commerce
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
16. Business ethics
17. Fraud
18. Implications of Federal Securities Acts
22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
34. Strategies for financing working capital; types, advantages, and disadvantages of short-term credit, including factoring
35. Types of marketable securities
37. Reasons for holding marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
43. Factors influencing optimum capital structure such as risk, leverage, and cost of capital
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets
46. Economic costs, economies and diseconomies of scale, and economic profits
47. Factors affecting production costs in the short run and the long run
48. Cost drivers, cost estimation, cost behavior, and the impact of productivity and quality

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**B. Assess engagement risk and the CPA firm's ability to perform the engagement**

Valid links:

2. Government intervention in market operations
9. The world economy; foreign exchange rates; and strategies to manage exchange rates
10. Business implications of E-commerce
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
16. Business ethics
17. Fraud
18. Implications of Federal Securities Acts
19. Implications of employment regulations, such as OSHA, ADA, and unfair labor practices
22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
31. Bankruptcy acts
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
34. Strategies for financing working capital; types, advantages, and disadvantages of short-term credit, including factoring
35. Types of marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets
46. Economic costs, economies and diseconomies of scale, and economic profits
47. Factors affecting production costs in the short run and the long run
48. Cost drivers, cost estimation, cost behavior, and the impact of productivity and quality
57. Annual profit plans and supporting budgets for sales, production, direct materials, direct labor,

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**C. Communicate with the predecessor accountant/auditor**

Valid links:

16. Business ethics

17. Fraud

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**D. Decide whether to accept or continue the client and engagement**

Valid links:

12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
16. Business ethics
17. Fraud
31. Bankruptcy acts



**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**E. Enter into an agreement with the client as to the terms of the engagement**

Valid links:

12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
16. Business ethics

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**F. Obtain an understanding of the client's operations, business, and industry**

Valid links:

1. Supply and demand
2. Government intervention in market operations
3. The economy as a system of markets, including the labor market and the capital market
4. Business cycles; terminology used to explain business fluctuations; and reasons for fluctuations
5. Monetary policy and money supply
6. Inflation and interest rates
7. Competitive factors in the marketplace
9. The world economy; foreign exchange rates; and strategies to manage exchange rates
10. Business implications of E-commerce
11. Sources of broad-based economic data (for example, Federal Reserve, market indicators)
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
17. Fraud
19. Implications of employment regulations, such as OSHA, ADA, and unfair labor practices
22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
23. The Uniform Commercial Code regarding: negotiable instruments, including letters of credit; sales; secured transactions; documents of title; and title transfer
31. Bankruptcy acts
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
34. Strategies for financing working capital; types, advantages, and disadvantages of short-term credit, including factoring
35. Types of marketable securities
36. Risk and return factors influencing the selection of marketable securities
37. Reasons for holding marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
43. Factors influencing optimum capital structure such as risk, leverage, and cost of capital
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease

- financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets
  46. Economic costs, economies and diseconomies of scale, and economic profits
  47. Factors affecting production costs in the short run and the long run
  48. Cost drivers, cost estimation, cost behavior, and the impact of productivity and quality
  49. Production cost allocation methods, including activity-based, job order, process, and standard
  50. Considerations in measuring and allocating costs in a service-based business
  51. Sales/customer/supplier channels
  52. Market influences on pricing; product differentiation; and market segmentation
  53. Service and product pricing strategies
  56. Impact of the organizational structure on short-term and long-term budgeting and planning
  57. Annual profit plans and supporting budgets for sales, production, direct materials, direct labor, overhead, cost of goods sold, and selling and administrative expenses
  59. Procedures to create business plans
  60. Forecasting/projection techniques
  61. Measurements of performance (for example, efficiency, productivity, customer satisfaction)
  65. Analyses such as make vs. buy, add or drop a segment, sell or process further
  67. Human resource management

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**G. Perform analytical procedures**

Valid links:

1. Supply and demand
2. Government intervention in market operations
3. The economy as a system of markets, including the labor market and the capital market
4. Business cycles; terminology used to explain business fluctuations; and reasons for fluctuations
5. Monetary policy and money supply
6. Inflation and interest rates
7. Competitive factors in the marketplace
9. The world economy; foreign exchange rates; and strategies to manage exchange rates
10. Business implications of E-commerce
11. Sources of broad-based economic data (for example, Federal Reserve, market indicators)
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
17. Fraud
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
43. Factors influencing optimum capital structure such as risk, leverage, and cost of capital
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
46. Economic costs, economies and diseconomies of scale, and economic profits
47. Factors affecting production costs in the short run and the long run
48. Cost drivers, cost estimation, cost behavior, and the impact of productivity and quality
49. Production cost allocation methods, including activity-based, job order, process, and standard
50. Considerations in measuring and allocating costs in a service-based business
51. Sales/customer/supplier channels
52. Market influences on pricing; product differentiation; and market segmentation
53. Service and product pricing strategies
55. Purposes of budgeting; methods of budgeting; and the budget process
56. Impact of the organizational structure on short-term and long-term budgeting and planning
57. Annual profit plans and supporting budgets for sales, production, direct materials, direct labor, overhead, cost of goods sold, and selling and administrative expenses
58. Pro forma income statements, pro forma statements of financial position, and pro forma statements

of cash flow

60. Forecasting/projection techniques

66. Analyses such as discounted cash flow, internal rates of return, payback, accounting rate of return, economic value analysis

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**H. Consider preliminary engagement materiality**

Valid links:

- 38. Reasons for carrying accounts receivable
- 41. Factors influencing the level of inventory
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
- 58. Pro forma income statements, pro forma statements of financial position, and pro forma statements of cash flow

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**I. Assess inherent risk and risk of misstatements**

Valid links:

2. Government intervention in market operations
4. Business cycles; terminology used to explain business fluctuations; and reasons for fluctuations
7. Competitive factors in the marketplace
9. The world economy; foreign exchange rates; and strategies to manage exchange rates
10. Business implications of E-commerce
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
30. Implications of loan covenants
31. Bankruptcy acts
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
35. Types of marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets
46. Economic costs, economies and diseconomies of scale, and economic profits
47. Factors affecting production costs in the short run and the long run
51. Sales/customer/supplier channels
57. Annual profit plans and supporting budgets for sales, production, direct materials, direct labor, overhead, cost of goods sold, and selling and administrative expenses

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**J. Consider internal control**

Valid links:

- 10. Business implications of E-commerce
- 17. Fraud
- 38. Reasons for carrying accounts receivable
- 39. Reasons for managing accounts payable
- 40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
- 41. Factors influencing the level of inventory
- 42. Inventory control and planning, and inventory models and systems
- 51. Sales/customer/supplier channels



**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**K. Consider other planning matters (e.g., using the work of other independent auditors, specialists, or internal auditors; related parties and related party transactions)**

Valid links:

17. Fraud

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**L. Identify financial statement assertions and formulate audit objectives**

Valid links:

1. Supply and demand
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
29. Rights, duties, and liabilities of debtors, creditors, and guarantors
30. Implications of loan covenants
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)

**Task I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client**

**M. Determine and prepare the work program defining the nature, timing, and extent of the auditor's procedures**

Valid links:

1. Supply and demand
2. Government intervention in market operations
13. Formation, operation, and termination of non-business entities, such as: estates, trusts, and conservatorships; and related fiduciary responsibilities
16. Business ethics
17. Fraud
18. Implications of Federal Securities Acts
29. Rights, duties, and liabilities of debtors, creditors, and guarantors
30. Implications of loan covenants
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
35. Types of marketable securities
37. Reasons for holding marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets

## **Task II. Obtain and document information to form a basis for conclusions**

### **A. Perform planned procedures including planned applications of audit sampling**

#### Valid links:

- 23. The Uniform Commercial Code regarding: negotiable instruments, including letters of credit; sales; secured transactions; documents of title; and title transfer
- 30. Implications of loan covenants
- 32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
- 33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
- 34. Strategies for financing working capital; types, advantages, and disadvantages of short-term credit, including factoring
- 35. Types of marketable securities
- 38. Reasons for carrying accounts receivable
- 39. Reasons for managing accounts payable
- 40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
- 41. Factors influencing the level of inventory
- 42. Inventory control and planning, and inventory models and systems
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
- 51. Sales/customer/supplier channels

## **Task II. Obtain and document information to form a basis for conclusions**

### **B. Evaluate contingencies**

#### Valid links:

2. Government intervention in market operations
4. Business cycles; terminology used to explain business fluctuations; and reasons for fluctuations
12. Formation, capitalization, operation, and tax implications of business entities, such as: corporations, partnerships, joint ventures, limited liability partnerships, limited liability corporations, and other unincorporated associations
14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
16. Business ethics
17. Fraud
19. Implications of employment regulations, such as OSHA, ADA, and unfair labor practices
22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
24. Formation and termination of agencies; duties of agents and principals; and liabilities and authority of agents and principals
27. Laws relating to computer technology rights
28. Types of insurance, including general business insurance, life insurance, self insurance
29. Rights, duties, and liabilities of debtors, creditors, and guarantors
30. Implications of loan covenants
31. Bankruptcy acts
39. Reasons for managing accounts payable
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
46. Economic costs, economies and diseconomies of scale, and economic profits

## **Task II. Obtain and document information to form a basis for conclusions**

### **C. Obtain and evaluate lawyers' letters**

#### Valid links:

- 16. Business ethics
- 17. Fraud
- 22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
- 31. Bankruptcy acts

## **Task II. Obtain and document information to form a basis for conclusions**

### **D. Review subsequent events**

#### Valid links:

- 29. Rights, duties, and liabilities of debtors, creditors, and guarantors
- 30. Implications of loan covenants
- 33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
- 39. Reasons for managing accounts payable
- 41. Factors influencing the level of inventory
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)

## **Task II. Obtain and document information to form a basis for conclusions**

### **E. Obtain representations from management**

#### Valid links:

- 14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
- 16. Business ethics
- 17. Fraud
- 22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
- 30. Implications of loan covenants
- 31. Bankruptcy acts
- 40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
- 45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets



## **Task II. Obtain and document information to form a basis for conclusions**

### **F. Identify reportable conditions and other control deficiencies**

#### Valid links:

- 15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
- 16. Business ethics
- 17. Fraud
- 30. Implications of loan covenants

## **Task II. Obtain and document information to form a basis for conclusions**

### **G. Identify matters for communication with audit committees**

#### Valid links:

- 14. Rights, duties, liabilities and authority of: stockholders, directors, officers, partners, joint ventures, members, and other owners
- 15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
- 16. Business ethics
- 17. Fraud
- 30. Implications of loan covenants
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)

**Task III. Review the engagement to provide reasonable assurance that objectives are achieved and evaluate information obtained to reach and to document engagement conclusions**

**A. Perform analytical procedures**

Valid links:

1. Supply and demand
2. Government intervention in market operations
3. The economy as a system of markets, including the labor market and the capital market
4. Business cycles; terminology used to explain business fluctuations; and reasons for fluctuations
5. Monetary policy and money supply
6. Inflation and interest rates
7. Competitive factors in the marketplace
9. The world economy; foreign exchange rates; and strategies to manage exchange rates
10. Business implications of E-commerce
11. Sources of broad-based economic data (for example, Federal Reserve, market indicators)
15. Financial structure, distribution, reorganization, consolidation, and dissolution of corporations
17. Fraud
32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
33. Cash management, such as: factors influencing the levels of cash; using the float; analysis and synchronization of cash inflows and outflows; methods to speed cash collections; overdraft systems; and compensating balances
34. Strategies for financing working capital; types, advantages, and disadvantages of short-term credit, including factoring
35. Types of marketable securities
38. Reasons for carrying accounts receivable
39. Reasons for managing accounts payable
40. Factors influencing the level of accounts receivable, and variables and decisions regarding credit policy
41. Factors influencing the level of inventory
42. Inventory control and planning, and inventory models and systems
44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
46. Economic costs, economies and diseconomies of scale, and economic profits
47. Factors affecting production costs in the short run and the long run
48. Cost drivers, cost estimation, cost behavior, and the impact of productivity and quality
49. Production cost allocation methods, including activity-based, job order, process, and standard
50. Considerations in measuring and allocating costs in a service-based business
51. Sales/customer/supplier channels
52. Market influences on pricing; product differentiation; and market segmentation
53. Service and product pricing strategies
55. Purposes of budgeting; methods of budgeting; and the budget process
56. Impact of the organizational structure on short-term and long-term budgeting and planning
57. Annual profit plans and supporting budgets for sales, production, direct materials, direct labor, overhead, cost of goods sold, and selling and administrative expenses
58. Pro forma income statements, pro forma statements of financial position, and pro forma statements of cash flow

60.     Forecasting/projection techniques

**Task III. Review the engagement to provide reasonable assurance that objectives are achieved and evaluate information obtained to reach and to document engagement conclusions**

**B. Evaluate the sufficiency and competence of audit evidence and document engagement conclusions**

Valid links:

- 16. Business ethics
- 17. Fraud
- 18. Implications of Federal Securities Acts
- 22. Contract: formation, performance, third party assignments, discharge, breach, and remedies
- 30. Implications of loan covenants
- 35. Types of marketable securities
- 39. Reasons for managing accounts payable
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
- 51. Sales/customer/supplier channels

**Task III. Review the engagement to provide reasonable assurance that objectives are achieved and evaluate information obtained to reach and to document engagement conclusions**

**C. Review the work performed to provide reasonable assurance that objectives are achieved**

Valid links:

- 16. Business ethics
- 32. Optimum levels of current assets and current liabilities; balancing profitability and risk; and types of risk
- 38. Reasons for carrying accounts receivable
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)

#### **Task IV. Prepare communications to satisfy engagement objectives**

##### **A. Prepare reports**

###### Valid links:

- 30. Implications of loan covenants
- 44. Types and nature of long-term financing; bonds, intermediate-term loans; term loans; lease financing; common stock; preferred stock; convertible securities; stock warrants and rights; stock options; employee stock ownership plans; hedging instruments (swaps, options, futures)
- 45. Responsibilities to capital holders; control positions of owners and management; lender and rating attitude; and effect of financial markets

**Task IV. Prepare communications to satisfy engagement objectives**

**B. Prepare letters and other required communications**

Valid links:

**16. Business ethics**



**Task IV. Prepare communications to satisfy engagement objectives**

- C. Consider omitted procedures after the report date or the subsequent discovery of facts existing at the date of the auditor's report**

Valid links:

None